



REPORT NO. CCDC-06-20

DATE ISSUED: May 10, 2006

ATTENTION: Honorable Chair and Members of the Redevelopment Agency
Docket of May 16, 2006

ORIGINATING DEPT.: Centre City Development Corporation

SUBJECT: Gaslamp Renaissance Hotel (located on the block bounded by J Street and Fifth, Sixth, and Island avenues) – Proposed Implementation Agreement to Disposition and Development Agreement with GRH, LLC -- Gaslamp Quarter Sub Area of the Centre City Redevelopment Project

COUNCIL DISTRICT(S): 2

REFERENCE: Site Map
Implementation Agreement

STAFF CONTACT: Eli Sanchez, Senior Project Manager (619)533-7121

REQUESTED ACTION:

Redevelopment Agency approval of a proposed Implementation Agreement between GRH, LLC and the Redevelopment Agency for the Gaslamp Renaissance Hotel and .

STAFF RECOMMENDATION:

That the Redevelopment Agency of the City of San Diego ("Agency"):

- Approve a proposed Implementation Agreement to the Disposition and Development Agreement ("DDA") entered into by the Agency and GRH, LLC ("Developer") on April 12, 2004, for the assembly of a 40,000 square-foot site to develop and construct a 334-room hotel on the corner of Fifth Avenue and J Street ("Site"); and
- Stating for the record that the information contained in the MEIR/SEIR and the Secondary Study and the Supplement to the MEIR for the project, has been reviewed and considered by the Agency and it is determined that no substantial changes or new information of substantial importance within the meaning of CEQA Guideline Section 15162 would warrant any additional environmental review in connection with approval of the project.

SUMMARY

The Agency approved a DDA with the Developer on April 4, 2004, for the development and construction of a 12-story, mixed-use commercial development (approximately 240,000 gsf) for a 334-room, full-service Marriott Renaissance Hotel with a 7,000 square-foot ballroom and 5,000 square feet of restaurant and street-level retail space on a 40,000 square-foot site. The Developer owns or controls 35,000 square feet of the proposed Site and the remaining 5,000 square feet is owned by Ahmed Mesdaq ("Acquisition Parcel"). The Agency is responsible for the purchase of the Acquisition Parcel by negotiation or condemnation, if necessary, and has attempted to purchase the the Acquisition Parcel without success, resulting in almost two years of litigation between the two parties, resulting in delays to the Schedule of Performance and significant increases to the cost of development. If the Implementation Agreement were not approved, the project would be terminated, as no other alternative solutions exist.

FISCAL CONSIDERATIONS:

Under the DDA, the Agency is responsible for the purchase of a 5,000 square-foot, improved parcel of land (APN 535-084-05) located on the southwest corner of the Site ("Acquisition Parcel") from the current owner, Ahmed Mesdaq ("Owner"). The Developer will pay a Purchase Price for the Acquisition Parcel consisting of the greater of the sum of all acquisition and relocation costs or \$1,250,000, which is the estimated fair reuse value of the parcel for the project. The estimated amount of Acquisition and Relocation Costs is approximately \$10,180,000. To date, the Developer has advanced funds in the amount of \$8,875,000.

CENTRE CITY DEVELOPMENT CORPORATION RECOMMENDATION:

The proposed Implementation Agreement will be heard by the Centre City Development Corporation Board of Directors at its meeting of April 26, 2006. An oral update of the vote and recommendation will be provided to the Redevelopment Agency at its meeting of May 16, 2006.

COMMUNITY PARTICIPATION AND PUBLIC OUTREACH EFFORTS:

On April 19, 2006, the Centre City Advisory Committee reviewed the proposed Implementation Agreement and voted 18 to 1 with 1 abstention and 3 recused, in favor of the staff recommendation; and the Project Area Committee voted 15 to 1 with 1 abstention and 3 recused, in favor of the staff recommendation.

BACKGROUND:

The proposed construction of a high-density hotel project on this Site advances the following Visions and Goals of the Centre City Community Plan and Objectives of the Centre City Redevelopment Project:

- Eliminate blight through the demolition and development of underutilized properties;
- Develop a strong financial/commercial core surrounded by mixed-use neighborhoods;
- Promote the growth and vitality of Centre City as the primary business, educational, cultural and entertainment magnet;
- Provide property tax increment and Transient Occupancy Tax funding for the Ballpark and related infrastructure improvements through the addition of new hotel rooms; and

- Make Centre City an urban resort where downtown residents and workers mingle with visitors from greater San Diego and all the world to share the unique advantages of a great urban center.

The proposed hotel is located on a 40,000 square-foot parcel on the block bounded by J Street and Fifth, Sixth and Island avenues in the Gaslamp Quarter. A Site Map is included as "Attachment A". The Developer owns or controls 35,000 square feet of the proposed Site ("Developer Parcel").

The Agency approved a DDA with the Developer on April 4, 2004, for the development and construction of a 12-story, mixed-use commercial development (approximately 240,000 gsf) for a 334-room, full-service Marriott Renaissance Hotel with a 7,000 square-foot ballroom and 5,000 square feet of restaurant and street-level retail space. The development includes a two-level, below-grade, 147-space parking structure.

The Agency, subject to the terms and conditions of the DDA, including the termination rights pursuant to Sections 508-510 of the DDA, has agreed to acquire the 5,000 square-foot Acquisition Parcel adjacent to the 35,000 square-foot Developer Parcel by negotiation or condemnation, if necessary.

On April 12, 2004, the Owner of the Acquisition Parcel filed an action in inverse condemnation in San Diego County Superior Court ("Superior Court") and the Federal District Courts ("Federal") seeking pre-condemnation damages. The Federal action was later dismissed with prejudice and the Superior Court action was stayed pending the outcome of the right to take phase of the eminent domain trial.

After unsuccessfully attempting to purchase the Acquisition Parcel through a negotiated sale, the Agency adopted a Resolution of Necessity on April 27, 2004. The Agency filed a claim in eminent domain with the Superior Court for the condemnation of the Acquisition Parcel on April 30, 2004. The Superior Court litigation resulted in a judgment in favor of the Owner on November 23, 2005, in the amount of \$7,785,131. The Agency filed a motion for a new trial; however, the motion was denied on January 13, 2006. The Agency filed a Notice of Appeal with the California Court of Appeals on January 17, 2006.

DEVELOPMENT TEAM:

<u>FIRM</u>	<u>ROLE</u>	<u>CONTACT</u>
GRH, LLC Ramin Samimi	Developer	Ramin Samimi
Joseph Wong Design Assoc. Joseph Wong	Architect	Joseph Wong

DISCUSSION

The almost two years of protracted litigation has resulted in delays to the Schedule of Performance and significant increases to the cost of development. Keyser Marston Associates, economic consultants to the Agency, estimated the fair-market value of the Acquisition Parcel to be

\$2,050,000 in December 2003. The Acquisition and Relocation costs associated with the Agency acquisition of the Acquisition Parcel are now estimated to exceed \$10,000,000. In addition, the estimate of total development costs has also increased from \$70,000,000 to \$98,000,000, due to the continued strength of the real estate development and construction industry.

Although the Developer has achieved approval of 50% Design Development Drawings, has prepared and completed the Phase II Environmental Site Assessment, and prepared a Property Mitigation Plan, delays with the Developer's ability to move forward with the completion of construction drawings has occurred. The Developer requests a modification to the Schedule of Performance that provides for milestones that lead to the conveyance of the Acquisition Parcel to the Developer on or before December 15, 2006.

The Agency has obtained a judicial order authorizing the Agency to take possession of the Acquisition Parcel and all occupants have relocated from the Acquisition Parcel. The Agency is prepared to tender possession of the Acquisition Parcel to the Developer upon satisfaction of the condition precedents to the close of escrow by the Developer in accordance with the DDA.

The Developer has advanced the Acquisition and Relocation costs to the Agency in an amount of approximately \$8,875,000. The Developer has obtained approval of the necessary development entitlements and is engaged in the preparation of construction drawings. The Developer is also in negotiations to obtain construction financing and has received three potential structures for Marriott's financial participation in the proposed Gaslamp Renaissance Hotel.

The following are proposed essential terms and conditions included in the Implementation Agreement:

The Schedule of Performance would be revised as follows:

- The Developer would be required to submit an application for a grading, excavation and shoring permit by April 26, 2006;
- The Developer would be required to demonstrate to the Agency that all conditions have been satisfied, with the exception of paying fees, for the issuance of grading, excavation, shoring, foundation and structural framing permit on or before December 15, 2006;
- The Closing Date for the Acquisition Parcel would be modified to occur, subject to the Developer satisfying all conditions precedent to the close of escrow, on or before December 15, 2006;
- The Closing of construction financing shall be concurrent with the closing of the escrow for the sale of the Acquisition Parcel to the Developer;
- The Developer would commence construction within 30 days after the Agency conveys title of the Acquisition Parcel to the Developer;
- The Developer would be required to submit to the Agency for approval 100% Construction Drawings on or before April 15, 2007;

- The Developer would be required to obtain all other permits necessary for the construction of the project on or before April 30, 2007; and
- The Completion of Construction would be within 20 months of start of grading, excavation and shoring.

The Method of Financing and Project Budget would be revised to:

- Reflect the current estimated cost to develop and construct the project; and
- Update the sources and uses of funds to finance the project.

Scope of the Project – Development and construction of a 12-story, mixed-use commercial development (approximately 240,000 gsf) for a 334-room, full-service Marriott Renaissance Hotel with a 7,000 square-foot ballroom and 5,000 square feet of restaurant and street-level retail space. The development includes a two-level, below-grade, 147-space parking structure.

Project Budget & Financing - The Developer is solely responsible for the assembly cost of the Developer Parcel and the development and construction of the improvements for the project on and off the Site. The Developer has advanced the Agency \$8,875,000 towards the Purchase Price for the Acquisition Parcel. The Developer will pay a Purchase Price to the Agency for the Acquisition Parcel equal to the Agency cost to acquire the Acquisition Parcel estimated to be approximately \$10,180,000. The Developer estimates that the cost of the total development costs has increased from approximately \$70,000,000 to \$98,000,000. The Developer is currently refining the Project Budget and discussing potential construction financing structures.

Disposition of Property - The DDA provides that the Agency assist with the assembly of the Site at the Developer's sole cost and expense. The Developer owns or controls 35,000 square feet of the Site. The Agency is responsible for the acquisition and sale of the 5,000 square-foot Acquisition Parcel to the Developer for the project. The estimated Purchase Price for the 5,000 square-foot Acquisition Parcel is \$10,180,000.

Participation by Agency - The DDA provides that the Agency would sell the Acquisition Parcel to the Developer for a purchase price equal to the sum total of Agency costs for all acquisition and any relocation costs. The estimated Purchase Price for the 5,000 square-foot Acquisition Parcel is \$10,180,000.

Proposed Schedule of Performance - The Developer was required to demonstrate approval of all necessary permits, provide evidence of financing and close escrow for the purchase of the Acquisition Parcel no later than 20 months after execution of the DDA by the Agency, and start construction within 30 days of close of escrow (January 10, 2006). Completion of construction was to be within 18 months of start of construction.

Per the proposed Implementation Agreement, the Developer would be required to submit an application for a grading, excavating and shoring permit by April 26, 2006; the Developer would be required to demonstrate to the Agency that all conditions have been satisfied, with the exception of paying fees, for the issuance of grading, excavation, shoring, foundation and structural framing

permit on or before December 15, 2006; the Closing Date for the sale of the Acquisition Parcel would be modified to occur, subject to the Developer satisfying all conditions precedent to the close of escrow, on or before December 15, 2006; the Developer would commence construction within 30 days after the Agency conveys title to the Acquisition Parcel to the Developer; the Developer would be required to submit to the Agency for approval 100% Construction Drawings on or before April 15, 2007. The Developer would be required to obtain all other permits necessary for the construction of the project on or before April 30, 2007; the Completion of Construction would be within 20 months of start of construction.

Project Benefits - The Project will eliminate blight through the demolition of underutilized properties. The assembled Site provides for a full-service hotel offering amenities such as business centers, health clubs, a variety of restaurants, and banquet/conference rooms. The proposed hotel is compatible with the surrounding uses within the Gaslamp Quarter and complements the scale and historic quality of the area. The Project is consistent with the Gaslamp Quarter Planned District Ordinance, Centre City Redevelopment Plan and it also implements CCDC's Five-Year Strategic Plan.

PROJECT DESCRIPTION

The purpose of the Implementation Agreement is to modify the DDA through the revision of the Schedule of Performance, the Budget, and the Method of Financing to reflect the current schedule, current estimated cost to develop and construct, and update the sources and uses of funds to finance the project.

The DDA provides for covenants and conditions to ensure the accomplishment of Agency objectives such as:

- ▶ Limitations on the sale, transfer, or assignment of any portion of the Developer's interest in the Site;
- ▶ Adherence to an established Scope of Development and Schedule of Performance for development of the Site;
- ▶ Implementation by the Developer, on a voluntary basis, of an Equal Opportunity Program;
- ▶ The improvement of the street scape along the Site frontage; and
- ▶ Conditions for maintenance of the improvements on the Site.

PROJECT ANALYSIS AND IMPACT ASSESSMENT

Environmental Impact – An Environmental Secondary Study for the Renaissance Hotel, dated April 12, 2002, was prepared by BRG, an environmental consultant for CCDC. The Secondary Study found that the proposed project may result in significant environmental effects not discussed in the

MEIR, and a Supplement to the MEIR would be required to be prepared.

A Supplement to the MEIR was prepared to evaluate the environmental effects of the demolition of the historic Greenbaum Market and the Manos Produce buildings. The Agency by Resolution No. R03756, certified that the Agency reviewed and considered information contained in the MEIR, the SEIR, and the Supplement to the MEIR, with respect to the DDA; approving the Supplement to the MEIR; adopting a Mitigation, Monitoring and Reporting Program; adopting a statement of overriding considerations and findings pursuant thereto; and making certain findings and determinations regarding environmental impacts of the Development pursuant thereto.

CONCLUSION

The proposed sale of the Agency Parcel to the Developer for the development and construction of the proposed full-service hotel will assist in the elimination of blight and the under utilization of land within the project area. The Gaslamp Marriott Renaissance Hotel, developed in accordance with the specific covenants and conditions of the DDA, ensure that the objectives of the Agency are accomplished and provides for an enhanced urban design to stimulate the continued quality development in the Gaslamp Quarter.

Respectfully submitted,

Concurred by:

Eli Sanchez
Senior Project Manager

Nancy C. Graham
President

Attachment(s):

A – Site Map

B – Implementation Agreement